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## *California State Senate*

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ON  
BUDGET AND FISCAL REVIEW

ROOM 5019, STATE CAPITOL  
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## **Agenda**

**Senate Budget and Fiscal Review Committee  
Senator Wesley Chesbro, Chair**

**April 27, 2006  
Room 4203, 8:00 a.m.**

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S.B. 1606 – Maldonado – State-budget: two year budget.

**SENATE COMMITTEE ON BUDGET AND FISCAL REVIEW**  
*Wesley Chesbro, Chair*

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<b>Bill No:</b>	<b>SB 1606</b>
<b>Author:</b>	<b>Maldonado</b>
<b>As Introduced:</b>	<b>February 24, 2006</b>
<b>Consultant:</b>	<b>Daniel Alvarez</b>
<b>Fiscal:</b>	<b>Yes</b>
<b>Hearing Date:</b>	<b>April 27, 2006</b>

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**SUBJECT**

Biennial (2-year) State Budget.

**DESCRIPTION**

This bill would provide for a two-year state budget. This bill makes some of the necessary statutory changes to move from an annual to two-year (24-month) budget beginning with the 2007-08 fiscal year. The bill specifies that it will only become operative if a Constitutional Amendment is submitted to and approved by the voters at a statewide election.

Note: The State Constitution changes necessary for biennial budgeting to become operative are contingent upon electoral passage of SCA 30. However, at the time of this analysis, SCA 30 was not in the possession of this committee.

**EXISTING PROVISIONS RELATED TO THE BUDGET**

General Background. The Constitution vests the Legislature with the sole power to appropriate funds (and make mid-year adjustments to appropriations). Specifically, the Constitution requires that (1) the Governor propose an annual budget by January 10 for the next fiscal year beginning July 1; and (2) the Legislature pass a budget by June 15. The Governor may then either sign or veto the budget bill. The Governor also may reduce certain individual appropriations in the budget before signing the measure. Once the budget is signed, the Governor may not unilaterally reduce any appropriations. The state is required to maintain a prudent reserve.

Proposition 58 (approved by the voters in March 2004) requires that budgets passed by the Legislature must be balanced; meaning expenditures cannot exceed available resources. In addition to a prudent reserve, Proposition 58, beginning in the 2006-07 fiscal year, established the Budget Stabilization Account (BSA), and requires that a specified portion of General Fund revenues must be transferred to the new BSA. Each year, 50 percent of revenues allocated to the BSA, up to a total of \$5 billion, must be used to accelerate repayment of the Economic Recovery Bonds authorized under Proposition 57. The Governor may, under certain conditions, suspend or reduce transfers to the BSA.

Mid-year Adjustments Process. After a budget is signed into law and if it falls *substantially* out of balance, the Governor may declare a fiscal emergency and call the Legislature into special session to consider proposals to deal with the fiscal imbalance. The proclamation is required to identify the nature of the fiscal emergency and be accompanied by proposed legislation to address the fiscal emergency. If the Legislature fails to pass and send to the Governor legislation to address the budget problem within 45 days after being called into special session, the Legislature is prohibited from acting on other bills or adjourning in joint recess.

## **FISCAL EFFECT**

1. Significant initial costs, most likely in the millions, to convert existing processes and technologies (e.g. the business information and accounting systems), provide critical training throughout state government to insure adequate and appropriate implementation.
2. Unknown savings over time. However, it is unclear whether resources “freed-up” as a result of biennial budgeting would be reverted to the General Fund or be used for enhanced review and evaluation of the budget.
3. Authorization of the accompanying ballot measure will also result in increased costs to the state of between \$300,000 and \$400,000 for printing of additional pages in the state ballot pamphlet.

## **COMMENTS**

- 1) **Intent.** According to information provided by the author, there are three major advantages of biennial budgeting (1) it improves long-term planning, (2) it allows more time for program review and evaluation, and (3) the process is less expensive and time-consuming than annual budgeting.
- 2) **National Conference of State Legislatures (NCSL).** According to NCSL, there is little evidence that either annual or biennial state budgets hold clear advantages over the other. Evidence from the past is inconclusive on the question of whether biennial budgeting is more conducive to long-term planning than annual budgeting. Some evidence indicates that biennial budgeting is more conducive to program review and evaluation. Biennial budgeting may reduce budgeting costs for executive agencies, but it is also likely to reduce legislators’ familiarity with budgets. Budget forecasting is likely to prove more accurate in annual budget states than biennial budget states, reducing the need for supplemental appropriations and special legislative sessions.
- 3) **Revising the budget annually may not be avoided.** While the author notes some positive aspects of biennial budgeting, there is nothing to guarantee that the Legislature would not have to spend significant time revising the budget during the second year of a biennial budget. It is unclear how SB 1606 would deal with revenue

irregularity or budget stabilization measures that may be needed in the second year of the biennial budget. For example, corrective action such as reducing or increasing taxes, or establishing new programs, may be needed when there are revenue surpluses, shortfalls, and unanticipated expenditures.

- 4) **Structural Deficit Continues**. It is unlikely that biennial budgeting by itself will have a meaningful impact on closing the General Fund structural deficit (the gap between on-going revenues and on-going expenditures). While the proposed 2006-07 budget is balanced, this is only the case because of a large carryover balance of \$7 billion from the prior year. Proposed expenditures for the budget year exceed revenues, resulting in an operating deficit of \$6.4 billion. The operating deficit is expected to grow from \$6.4 billion in 2006-07 and 2007-08 to \$9.7 billion in 2008-09.

**Support:**

1. Performance Institute / Reason Foundation / National Tax Limitation Committee.

**Opposition:**

None on file.